

Automotive News

INSIGHT: FINANCE & INSURANCE

Used-vehicle leasing boosts showroom traffic

Dealers: Strategy can cut customers' monthly payments and inspire loyalty

[Donna Harris](#)

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As many as one of every five used cars and trucks that dealer John Klein has sold in recent years has been a lease deal. That's unusual on several counts.

Leasing tends to flourish at luxury dealerships in metropolitan areas along the East and West coasts. Klein's Chevrolet-Buick-Pontiac and Chrysler-Dodge-Jeep dealerships are in rural Clintonville, Wis., with a population of 4,500.

Even more striking is Klein's reliance on leasing used vehicles. Few dealers, even in large urban markets, have placed a similar emphasis on that segment. Leases represent less than 1 percent of used-vehicle sales at franchised dealerships, according to the AutoCount market research firm.

Klein says his leasing operation is responsible for "a big portion" of the 20 percent increase in his new-vehicle sales so far this year over 2007. He says he uses leasing to inspire customer loyalty.

In a tough economy, new-vehicle dealers could attract customers with used-vehicle leasing, industry analysts say. Budget-challenged shoppers are more likely to trade down to a used car or truck. And leasing helps dealers offer customers a lower monthly payment for a shorter term than a finance contract for the same vehicle.

"Dealers can use used-vehicle leasing to create floor traffic," says Tom Wirth, president of indirect lending for U.S. Bank, one of the nation's largest vehicle leasing companies. "We encourage that."

Lease or buy?

Used-vehicle leasing could appeal to budget-conscious consumers who seek lower payments and shorter terms. Figures are for typical loan and lease deals, without a down payment.

VEHICLE	Lease Length	Payment/mo.	Loan Length	Payment/mo.
2007 Toyota 4Runner SR5	39 mos.	\$232	60 mos.	\$427
2005 Cadillac Escalade ESV	27 mos.	\$246	60 mos.	\$485

Source: CyberCalc Arbitrage

Repeat customers

Klein says he sells about 35 used vehicles and 15 new vehicles a month. He estimates 75 percent of his lease customers return to his dealerships to lease or buy another vehicle. Customers like leasing used as well as new vehicles, he says, because it enables them to drive a pricier vehicle or get into another vehicle sooner.

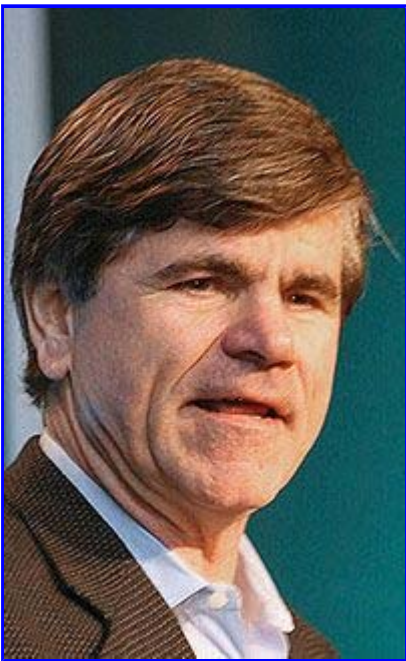
David Ruggles, a partner in CyberCalc Arbitrage, a vendor of leasing software, offers this example: A used 2007 Toyota 4Runner SR5 wagon, with four-wheel drive and a V-6 engine, would sell at retail for about \$22,000.

A buyer who financed the vehicle without a down payment would pay \$427 a month, at the prevailing 6.15 percent retail interest rate and a 60-month term, Ruggles says. By contrast, a standard 39-month lease of the same vehicle, also with no down payment, would cost the buyer \$232 a month.

The 2008 model of the same vehicle, sold as new, would cost the customer \$543 to \$558 a month, Ruggles adds, based on available rebates and promotional rates.

Dar Halverson, a Suzuki dealer in Rochester, Minn., sells about 80 used vehicles a month, along with 20 new vehicles. He says about 20 percent of his total sales are used-vehicle leases.

“Not a lot of dealers locally” focus on used-vehicle leasing, says Halverson, who also operates an independent leasing company. “That’s why we jumped into it.”



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"Viable" business

Franchised dealers have emphasized new-vehicle leasing because factories subsidize those contracts with incentives. Industry consultant Buzz Doering says many dealers do not perceive used-vehicle leasing as a potential profit center.

“It’s not because the business isn’t viable,” says Doering, who owns an independent vehicle leasing company in Milwaukee.

But the business poses challenges. Many used-vehicle buyers are accustomed to traditional financing, Klein says. Dealers must sell them on the advantages of leasing.

“You have to articulate the benefits of leasing to the customer, regardless of the deal,” he says. “Then you can take a strategy like this and make it work.”

Automakers’ captive finance companies generally shun used-vehicle leasing, citing the risks of losses from reselling older off-lease vehicles.

Toyota Financial Services says it applies the same finance incentives to new vehicles and factory-certified used vehicles, but it does not offer subsidized leases for used vehicles.

“We do very little leasing of certified vehicles,” says George Borst, CEO of Toyota Financial Services. “You take the residual risk on the first lease.

That’s always a big risk. When a (used) vehicle comes back off lease, it’s got high mileage. There is not much appetite among dealers for 7-year-old vehicles.”

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That lack of demand hurts used vehicles’ residual values when their leases expire, Borst says.

Taking tricks

Dealer Klein says his used-vehicle-leasing penetration dropped to 5 percent when automakers began offering 0 percent financing several years ago. He says he is working to build it back to 20 percent.

“There’s a trick to it,” Klein says. “You have to buy a vehicle at close to what its residual value will be at the end of the lease.”

That isn't easy because wholesale values of used vehicles change daily. Residual values — predictions of what vehicles will be worth at the end of a lease — are updated every two months or so.

Vendors offer products and services to help dealers make projections of used-vehicle values. CyberCalc Arbitrage, for example, uses automated processes to monitor end-of-lease residual values for used vehicles and to track related auction data.

“We are looking for vehicles that have the least amount of difference between what they can currently be acquired for and what they sell for,” Ruggles says. “To do all this manually would be frustrating. That is the reason that pre-owned leasing has never found traction.”

Tarry Shebasta runs an independent vehicle leasing company in Cincinnati. He says most of his lease contracts are for used vehicles. Shebasta, who is president of the National Vehicle Leasing Association, operates a Web site that promotes used-vehicle leasing, **FrontRowCars.com**.

Says Shebasta: “It's a niche.”



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"There's a trick to it," dealer John Klein says about building a used-vehicle leasing business.

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